

SPECIAL FEATURE

Successfully Locating a Business -- A New Look at a Retailer's Biggest Challenge

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California's innovative shopping centers are home to many retailing firsts -- and today they are home to many first-time retailers. This new breed of store owner tends to be strong on operations, such as merchandising and service, and weak on business experience. Thus, they often run afoul of retail fundamentals -- particularly site selection.

Locating a retail store in today's centers has become more subtle and complex, but it remains the single most important factor in a merchant's success. Even for established and successful retail chains, location typically accounts for more than 90 percent of the variation in performance among outlets.

The first thing to grasp about site selection is that the basic principles haven't changed in a long time. Despite many experiments and variations, no center has really found a better layout than the familiar dumbbell design. In this architectural design, major department stores or other destination retailers anchor either end of a shopping mall. The smaller stores line the mall itself. By the same token, there is no better urban shopping arrangement than some variation on a "Main Street." Here, shoppers looking up and down the "street" can see every store, and, as they travel its length, they pass every business.

As customers move through a center, whether on foot or by car, the repeated exposure to signage provides a form of advertising. A concentrated shopping area can generate a sense of activity and critical retail mass that initially attracts people, then keeps them coming back.

Consider that it is almost impossible for small stores to operate successfully from second floors, half-floors, subfloors or any other spot out of the retail line of sight, and without frontage to the flow of shoppers. Second floors only work when the anchor tenants have entrances on that level to generate shopper traffic. Otherwise, upper levels generally provide very poor retail locations. Some center owners solve the problem by turning second story retail space into offices or professional personal service establishments. Others have encouraged ground floor tenants to expand upward and include another story, while retaining a ground floor entrance.

Many shopping malls have side malls, retail clusters projecting off the main mall. The relative strengths and weaknesses of these illustrate the principles of site selection. In side malls, the limited visibility of stores and their signage translates into reduced customers and, usually, reduced rent. Perhaps 20 percent of visitors to the central mall will venture into these out-of-the-way areas. In side malls, stores often are not visible from the main shopping area, but they are visible to each other. So, successful side malls leverage their internal visibility and isolation from the main mall to create distinct shopping destinations, often geared to smaller or

specialized markets. They either include their own anchor store, or collectively function as a destination.

One example is the Stanford Shopping Center in Palo Alto. Macy's and Bloomingdale's anchor opposite ends of this upscale mall, with comparison stores predominating in the concourse between them. The center has two side mall areas, and has created a particular identity for each. One targets younger customers with a Pacific Sunwear store (offering teenage apparel), two athletic shoe stores and a Gap store -- with McDonald's as an anchor for this side mall. The other clusters upscale convenience-related stores, including specialty grocery, produce, fish and meat boutiques, a bakery and several restaurants. In both cases, the stores and their signage are visible to each other within the side mall, while functioning as separate retail destinations.

The Stanford Center's management knows who their shoppers are. Bloomingdale's customers may drive 45 minutes to get to the Center, and they probably don't want to buy fish or compact discs when they get there. Also, the local people who do buy fish at the Center rarely continue on to Bloomingdale's during that shopping trip. It has all been thought out and arranged accordingly.

A similar thought process can help retailers -- especially single-location stores -- when they consider leasing space in a shopping center or mall. The issue of retail visibility may be the logical place to start, because it is fairly straightforward. You can stand outside a location and determine how many pedestrians or cars drive by. It is easy to see whether you will be close to the major flows of retail traffic. Naturally, your visibility from the center's major tenants is key. Shoppers going to and from the anchor stores should easily notice your store.

None of this is rocket science, but it frequently eludes the grasp of single-store, family owned businesses. Ironically, though these retailers are the most dependent on location, many do not consider the full implications of a site. They often fail simply because they are running a good business well -- in a bad location.

A site may work within a center -- but will it work within a community or region? Any retail business serves a particular "trade area." This is the zone in which roughly 70 to 80 percent of a store's customers live. Its boundaries are largely determined by driving time, competition, and demographics. For example, people will drive 20 minutes or more to visit a regional mall. But they expect to travel less than 10 minutes to pick up food, hardware, dry cleaning and other convenience items. If the drive is shorter to a competitor's store, potential customers will probably go there. As for demographics, upscale stores like to locate in upscale communities, stores that target working people like to be in blue-collar areas, and so on. It's just that simple, isn't it?

Unfortunately, understanding a trade area is more complicated. In most centers, the anchor tenant defines the trade area for the smaller stores. Locating near a Sears outlet, for example, gives neighboring stores access to regional shoppers with a particular demographic. Being near a Macy's offers different possibilities. A Safeway pulls in another crowd, mostly from neighborhood residents, without much regard for demographics.

What's important to recognize is that there is no overcoming the power of the anchor tenants in defining your trade area. In fact, the managers of the anchor tenant stores can probably give you a good idea of whether a center's space will work for your use. Try to talk to them while you are considering a space. Talk to the other merchants as well. As long as you are not in competition with them, other store operators should be very interested in helping you make the center succeed.

Spend time in the center, to take note of who is there during the day, in the evening and on the weekends. Pay attention to the clothes shoppers wear and to the cars they drive. Also read over the shopping center's own surveys and studies. The sum of these impressions and data gathered should give you a reasonable idea of the trade area and the true shopper demographics.

In analyzing its trade area, shopping center managers often commission surveys. The typical result is a demographic profile indicating, for example, that the "average shopper" is a 44-year-old woman who lives within five miles of the center...and so on. Such a study may be of limited help in selecting a retail site. A more detailed view of a trade area reflects an understanding of lifestyles and how these change over time.

In evaluating a center, it is worth asking, "Who are the people shopping here?" Will they really be spending money at your store? It is only a starting point to know that a mall targets "households within a 10-mile radius, with an average income of \$75,000 per year." The fact is that all households earning \$75,000 are not alike in their tastes and needs. Take a single young professional, a retired couple and a working couple with three children. These three households all may have identical incomes -- but they will spend their money very differently!

Finally, in considering a store location, think long and hard about your neighbors. These days a good "tenant mix" underlies the success of major malls, as well as some shopping centers. Again, complementary tenants create youth market and convenience-oriented side malls at Stanford Shopping Center. In one of the courts of Costa Mesa's South Coast Plaza, a cluster of kid's shops situated around a carousel ranks among the strongest children-oriented retail destinations in the country.

But some effective tenant mixes are not so obvious. For example, note the preponderance of shoe retailers in large malls anchored by department stores. Rather than cannibalizing each other's business, these neighboring stores offer a variety that is appealing to comparison shoppers. Restaurant owners have learned the same lesson, and a collection of nearby eateries can coalesce into a successful "dining destination" (much like the food courts in many centers and malls).

By combining restaurants, multi-screen cinemas, bookstores and other complementary retailers, several centers have created distinct and impressive "night out" destinations. Only a few years ago, multi-screen cinemas located in single-purpose developments, usually surrounded by parking and nothing else. With the enormous success of mixing theaters with other forms of entertainment retailers, most new cinema construction in California now combines restaurants and complementary entertainment/lifestyle tenants.

The key to successful tenant mix lies in understanding the mentality of our customers. People who are out for the evening may enjoy browsing -- whether it's menus, books or movie schedules.

Yet people who shop in supermarkets want to make their selections and complete their errands quickly. In such a utilitarian mood, shoppers may ignore a shoe store next to the market -- but they will likely notice a shoe repair shop.

In short, take your time when considering a retail location. Make sure that you really understand the visibility of the site, the compatibility with nearby tenants and the true makeup of the customers and extent of the trade area.